

Message Text

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ACTION EB-08

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COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05 SS-15
STR-07 ITC-01 TRSE-00 USIA-06 SP-02 SOE-02 OMB-01
DOE-15 /163 W

-----109082 232114Z/41

R 231911Z MAR 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 9056
INFO ALL EC CAPITALS
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USMTN

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E.O. 11652: N/A
TAGS: ETRD MTN FR
SUBJECT: MTN - DISCUSSION BETWEEN AMBASSADOR WOLFF
AND DE MOREL

1. SUMMARY: AMBASSADOR WOLFF AND DE MOREL, DIRECTOR OF FOREIGN ECONOMIC RELATIONS AT FRENCH MINISTRY OF FOREIGN TRADE, DISCUSSED MTN ON MARCH 22. ON JAPAN, THE FRENCH SAY THE JAPANESE TARIFF OFFER IS UNACCEPTABLE AND WANT JAPAN TO APPLY FORMULA CUTS TO ACTUAL RATES. AMB. WOLFF SUMMARIZED THE US OBJECTIVE AS AN EQUAL LEVEL OF PROTECTION AMONG JAPAN, THE US AND THE EC. DE MOREL CLAIMED THE EC TARIFF CUT AVERAGED 40 PER CENT, DROPPING TO 32 PER CENT AFTER WITHDRAWALS. HE DESCRIBED EC INTENT TO PRESENT TWO WITHDRAWAL LISTS,

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ONE NON-NEGOTIABLE AND THE OTHER CONDITIONAL ON PROGRESS IN SPECIFIC AREAS. FRANCE WANTS MORE FROM JAPAN ON CARS AND FROM THE US ON TEXTILES PLUS A SATISFACTORY ARRANGEMENT FOR SELECTIVE SAFEGUARDS. DE MOREL SAID THE US SHOULD NOT BE CREDITED FOR GREATER THAN FORMULA CUTS. AMB. WOLFF SAID EC WITHDRAWALS WOULD BE PREMATURE AND WOULD BEGIN AN UN-

RAVELING OF TARIFF OFFERS. TO AVOID THIS, AMB. WOLFF SUGGESTED THE EC IMPROVE ITS OFFER BY ALSO MAKING GREATER THAN FORMULA CUTS. HE URGED FRANCE AND THE EC TO EXAMINE CAREFULLY US OFFERS OF THIS TYPE AS MANY OF THEM HAD POTENTIAL TRADE VALUE FOR EUROPE. DE MOREL STRESSED CONTINUED FRENCH OPPOSITION TO THE "NO NET EXCEPTIONS" APPROACH AND BELIEVES THE US INTENT IS TO AVOID HARMONIZATION. AMB. WOLFF REBUTTED THE LATTER POINT. ON SAFEGUARDS, AMB. WOLFF SAID WE INSIST ON INTERNATIONAL CONTROLS BUT AGREED THE NEW SYSTEM SHOULD PERMIT SELECTIVITY. HE SAID WE STILL AWAITED AN EC PROPOSAL. DE MOREL SAID THE FRENCH ALSO OPPOSE FREE USE OF THE SELECTIVITY PRINCIPLE. AMB. WOLFF SUMMARIZED THE AGRICULTURAL PROBLEM AS A U.S. REQUIREMENT FOR ASSURANCES CONCERNING MARKET ACCESS AND AN EC DEMAND FOR ASSURANCES OF PRICE STABILITY AND SECURITY OF SUPPLY. NEITHER SIDE SEEMS ABLE TO PROVIDE JURIDICALLY SECURE ASSURANCES ON THESE POINTS. DE MOREL OFFERED NO WAY OUT OF THIS PROBLEM AND PREFERRED TO DISCUSS WHEAT. HE FAVORED AGREEMENT ON STOCKING AS THE FIRST STEP TOWARD CONCLUSION OF A WHEAT AGREEMENT. HE SAID FRANCE WAS NOT DOGMATIC ABOUT THE MEANS FOR ASSURING PRICE RANGES ARE OBSERVED. BOTH AGREED THERE WAS A LINK WITH THE MTN AND AMB. WOLFF STRESSED WE CANNOT CONCLUDE THE MTN WITHOUT SUBSTANTIAL RESULTS IN AGRICULTURE. ON STEEL AMB. WOLFF EXPRESSED LIMITED OFFICIAL USE

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CONFIDENCE IN THE REFERENCE PRICE SYSTEM BUT SAID STRUCTURAL AND CYCLICAL PROBLEMS FOR THE LONGER TERM NEED TO BE DEALT WITH. HE SAID HE WOULD DISCUSS WITH DAVIGNON THE POSSIBILITY OF FORMING AN INTERNATIONAL GROUP TO EXCHANGE INFORMATION AND EXAMINE CURRENT BEHAVIOR. DE MOREL SAID THE FRENCH POSITION IS THAT CONTROL BASED ONLY ON PRICE IS INADEQUATE; THERE SHOULD ALSO BE A QUANTITATIVE ELEMENT. BOTH AGREED ON THE NEED FOR GREATER INTERNATIONAL COOPERATION. THE DETAILED REPORT WHICH FOLLOWS (BUT NOT THIS SUMMARY) WAS APPROVED BY AMB. WOLFF. END SUMMARY.

2. ON MARCH 22, AMBASSADOR ALAN WOLFF ACCOMPANIED BY THE EMBASSY'S ECONOMIC/COMMERCIAL MINISTER AND EMBOFF CALLED ON BERTRAND LARRERA DE MOREL TO DISCUSS MTN. ALSO PRESENT ON THE FRENCH SIDE WERE DE MOREL'S DIRECTOR FOR GATT AFFAIRS, JEAN-CLAUDE PREVEL, AND THE FRENCH REPRESENTATIVE TO GATT, FRANCOIS MOUTON.

3. THE AMBASSADOR CONSIDERS THE SEVEN PER CENT GROWTH TARGET SET BY JAPAN TO BE A VERY USEFUL ONE, SINCE IT

HAS ENCOURAGED JAPAN TO TAKE MORE AGGRESSIVE MEASURES.
THE GOAL OF A CURRENT ACCOUNT BALANCE IN TWO YEARS IS

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ALSO USEFUL. DE MOREL FEARED THAT JAPAN THINKS ONLY
IN TERMS OF EXPORT LED GROWTH. THE JAPANESE TARIFF
OFFER AT GENEVA IS NOT ACCEPTABLE. THE EC WANTS JAPAN
TO APPLY FORMULA CUTS TO ACTUAL RATES, NOT TO BOUND
RATES. THE AMBASSADOR SAID WE HAD A SIMILAR POSITION.
OUR OBJECTIVE IS THAT THE FINAL RESULT SHOULD BE AN
EQUAL LEVEL OF PROTECTION AMONG THE BIG THREE--EC,
JAPAN, AND THE US. IF THE EC MAKES WITHDRAWALS, THIS
WILL LESSEN PRESSURE ON THE JAPANESE.

4. DE MOREL ESTIMATED THE AVERAGE REDUCTION OFFERED
BY THE EC AT 40 PER CENT DROPPING TO ABOUT 28 TO 30
PER CENT AFTER WITHDRAWALS. THIS IS CALCULATED ON
GLOBAL DUTIABLE TRADE. THE AMBASSADOR NOTED THAT OUR
OFFER TO THE EC WAS EQUAL TO A 52 PER CENT REDUCTION.
DE MOREL SAID PART OF OUR OFFER IS GARBAGE. HE
REFERRED TO REDUCTIONS INTENDED TO COMPENSATE FOR
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EXCEPTIONS. THE EC EVALUATES THE US OFFER AT 30.5 PER CENT LEAVING OUT CUTS WHICH EXCEED THE SWISS FORMULA. AMB. WOLFF PROTESTED THAT THESE REDUCTIONS SHOULD NOT BE AUTOMATICALLY CLASSIFIED AS GARBAGE WITH NO ANALYSIS OF THE VALUE OF THE GREATER THAN FORMULA CUTS GIVEN, BUT DE MOREL ARGUED THAT THEY MEAN NO TRADE EFFECT MOST OF THE TIME. WOLFF POINTED OUT THAT THE EC OFFER WHICH WE ACCEPT AT 40 PER CENT CONTAINS MANY REDUCTIONS OF NO DIRECT VALUE TO US. IN ANY EVENT, WE CANNOT GO TO CONGRESS AND SAY WE ARE OFFERING THE EC 52 PER CENT BUT WE ARE GETTING ONLY 30 PER CENT IN RETURN. IF THE EC WITHDRAWALS ARE OF TRADE INTEREST TO US, WE SHALL HAVE TO MAKE COMPENSATORY WITHDRAWALS IN TURN. WHERE WILL THE PROCESS END?

5. DE MOREL SAID THE EC WOULD PUT ON THE TABLE A HARD CORE LIST OF EXCEPTIONS, WHICH WHEN IMPLEMENTED WOULD BRING THE AVERAGE REDUCTION DOWN TO 32 PER CENT (THE LIST ISN'T FINAL YET, HE NOTED) AND THERE WOULD BE A SEPARATE LIST OF CONDITIONAL WITHDRAWALS LINKED WITH FURTHER TARIFF NEGOTIATIONS. FOR EXAMPLE, THERE COULD BE A NEGOTIATION WITH THE AMERICANS ON TEXTILES. THESE WITHDRAWALS COULD ALSO BE LINKED WITH NON-TARIFF NEGOTIATIONS, ESPECIALLY THE SAFEGUARD CLAUSE. THIS PROCEDURE IS NECESSARY, SINCE WITHOUT SATISFACTION FOR THESE SENSITIVE SECTORS THERE WILL NOT BE SUFFICIENT SUPPORT FOR TARIFF CUTS. THE CONDITIONAL LIST COULD DISPEAR ALTOGETHER IF THE NEGOTIATIONS SUCCEED. IF NOT, THE LIST COULD BECOME MORE IMPORTANT. THE FINAL RESULT WOULD BE REDUCTIONS OF 32 PER CENT, THAT IS WITHIN THE LIMITS OF 25-35 PER CENT SET BY THE EC COUNCIL.

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6. AMB. WOLFF COMMENTED THAT ON TEXTILES WE HAD MADE ON AVERAGE A LESS THAN A FORMULA CUT, BUT THE CUT IS SUBSTANTIAL AND IT WAS DONE WITH DOMESTIC RISK. ON CHEMICALS WE HAD EXCEEDED THE FORMULA. IN STEEL ALSO THERE WERE MANY CUTS MORE THAN THE FORMULA.

7. DE MOREL ASKED HOW THE US WOULD ADJUST TO EC WITHDRAWALS. WOULD WE WITHDRAW THE GREATER THAN FORMULA CUTS OR WOULD WE LIMIT FURTHER THE APPLICATION

OF THE FORMULA.

8. AMB. WOLFF SAID THERE COULD NOT BE A GENERAL RESPONSE. THERE WOULD HAVE TO BE A QUALITATIVE ASSESSMENT OF EACH SECTOR OF TRADE INTERESTS AFFECTED, WITH APPROPRIATE REACTIONS. HE NOTED THERE SHOULD BE POSSIBILITIES FOR IMPROVEMENT IN THE EC OFFER TO OFFSET THEIR EXCEPTIONS. WOLFF DIDN'T WANT TO STRESS IT TOO MUCH, SINCE OUR EFFORT WAS ALREADY CONSIDERABLE, BUT IF THERE ARE AREAS WHERE THE EC IS DISAPPOINTED IT WOULD BE BETTER TO DISCUSS THESE AREAS NOW INSTEAD OF MAKING WITHDRAWALS FIRST.

9. DE MOREL SAID EVEN THE CONDITIONAL WITHDRAWALS WERE IN SENSITIVE AREAS. HE ACKNOWLEDGED TO MINECON THAT ONCE THE WITHDRAWAL LISTS ARE ESTABLISHED BY THE EC COUNCIL ON APRIL 4 THEY WILL BE HARD TO CHANGE. HE SAID IT WOULD BE IMPORTANT TO KNOW PRECISELY WHAT IS NOT NEGOTIABLE. THE CONDITIONAL LIST WOULD BE LESS PRECISE.

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10. AMB. WOLFF SAID THERE WAS LITTLE THAT WAS NOT NEGOTIABLE. WE HAD MANDATORY EXCLUSIONS FOR PETROLEUM, BALL BEARINGS, SPECIALTY STEEL ETC., BUT DESPITE THE FACT THAT MANY SECTORS PRESENT GREAT DIFFICULTIES, THERE ARE ALWAYS SOME POSSIBILITIES FOR CHANGE.

11. DE MOREL SAID IT WAS THE AMERICANS WHO PUT TARIFFS ON THE FRONT LINE. THE US HAD MADE TARIFFS THE LOCOMOTIVE OF THE NEGOTIATION. HOWEVER, WE NOW HAVE THE LOCOMOTIVE BUT THERE ARE NO CARS. AMB. WOLFF COMMENTED THAT THE DYNAMIC OF THE NEGOTIATION HAD NOT PERMITTED PUTTING OTHER MATTERS FIRST, THEY HAD BEEN STALLED FOR YEARS. THE LOCOMOTIVE CANNOT NOW GET INTO THE STATION WITHOUT PUTTING THE OTHER CARS ON.

12. DE MOREL SUMMARIZED THE FRENCH POSITION ON TARIFFS.
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THE SWISS FORMULA SHOULD BE APPLIED. EXCEPTIONS HAVE TO BE GIVEN A QUALITATIVE ASSESSMENT (WHICH HE SAID HAD BEEN INSUFFICIENT TO DATE BY THE EC COMMISION). THERE MUST BE AN APPRECIATION OF CUTS ON HIGH TARIFF ITEMS IN QUALITATIVE TERMS. THE WEIGHT TO BE GIVEN TO CUTS WHICH EXCEED THE SWISS FORMULA SHOULD BE ZERO. FRANCE DOES NOT SHARE THE "NO NET EXCEPTIONS" PRINCIPLE BUT CAN SEE HOW IT MIGHT BE RECONCILED WITH THE BRUSSELS INSTRUCTIONS THROUGH SECTOR SOLUTIONS, E.G., AIRCRAFT (I.E. GREATER THAN FORMULA CUTS WOULD BE MADE WITHIN SECTOR TOTALS). FRANCE WILL REMAIN FIRM IN BRUSSELS AGAINST ACCEPTING THE "NO NET EXCEPTIONS" APPROACH. THE HARD CORE NON NEGOTIABLE EXCEPTIONS (OR WITHDRAWALS) LIST IS IMPORTANT AND IS NOT NEGOTIABLE (HE SAID THIS TWICE). THE UK, HE NOTED, WANTS AN EXCEPTION FOR CARS.

13. AMB. WOLFF SAID OUR INDUSTRY WOULD GO FOR ALL COUNTRIES HAVING A ZERO DUTY ON CARS OR THEY WOULD BE HAPPY TO HARMONIZE UPWARD.

14. TO AVOID THE DANGER OF AN UNRAVELING WHY NOT MAKE IT MORE DIFFICULT FOR THE US BY OFFERING US SOME GREATER THAN FORMULA CUTS? DE MOREL UNDERSTOOD THE POINT, BUT HE SAID TI WAS CONTRARY TO THE FRENCH POSITION. HE SAW THE US IDEA AS A COSMETIC APPROACH. MINECON POINTED OUT THAT OPTICS ARE IMPORTANT POLITICALLY. WE ARE ALL TRYING TO RESTRAIN PROTECTIONIST PRESSURES. DE MOREL RESISTED. HE SAW THIS AS A MEANS FOR THE US TO AVOID REAL HARMONIZATION.

15. AMB. WOLFF ARGUED THAT WE WERE NOT TRYING TO

AVOID HARMONIZATION. WE HAD KEPT GENERALLY TO THE
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SWISS FORMULA AND WE HAD OFFERED CUTS LARGER THAN A LINEAR FORMULA. A THREE PER CENT TARIFF ON AUTOS COULD BE VERY IMPORTANT TO EUROPEAN PRODUCERS AS THE US MOVES INTO SMALL CAR PRODUCTION. THE EUROPEANS SHOULD EVALUATE CAREFULLY ALL OF OUR OFFERS WHICH EXCEED THE SWISS FORMULA.

16. DE MOREL WONDERED IF WE HAD CHANGED OUR VIEW ON SAFEGUARDS AND OPPOSED ANY FORM OF SELECTIVITY. THE ANSWER WAS NO. WE STILL AWAITED ADEQUATE INTERNATIONAL CONTROLS OVER SAFEGUARDS. WE MUST GO BEYOND A NOTIFICATION PROCEDURE. REQUIRING CONSENT MAY BE TOO STRICT IN THE EYES OF THE EC. WE ARE STILL WAITING FOR AN EC PROPOSAL. IT IS CLEAR THE NEW SYSTEM WILL CONTAIN SELECTIVITY. DE MOREL AGREED IT WOULD NOT BE POSSIBLE TO HAVE FREE USE OF SELECTIVITY. HE RECOGNIZED THAT THE PROBLEM IS HOW TO STRIKE A BALANCE.

17. AMBASSADOR WOLFF SAID HE WAS ENCOURAGED BY THE FACT THAT WE ARE NOW DISCUSSING REAL AGRICULTURAL PROBLEMS INSTEAD OF PROCEDURE AND THEOLOGY. WE WANT ACCESS TO THE EC MARKET. THE EC SAYS WE HAVE ACCESS, BUT WE WANT ASSURANCES ABOUT THE FUTURE. THE EC WANTS STABILITY. WE SAY THEY HAVE IT BUT THEY WANT ASSURANCES, ESPECIALLY ON SECURITY OF SUPPLY. DE MOREL SAID HE UNDERSTOOD THE MAIN PROBLEM ON GRAINS NOW IS THE STATUS OF A PRICE FORK. AMB. WOLFF SAID NO, THE EC PROPOSAL HAS NOTHING TO OFFER THE US OF ECONOMIC INTEREST ON FEED GRAINS AND THE FEED GRAIN INTERESTS IN THE US ARE OPPOSED TO SUCH AN AGREEMENT. WE EXPECT NO SIGNIFICANT ADDITIONAL TRADE FROM EITHER A WHEAT OR FEED GRAINS AGREEMENT. WE NEED ASSURANCES THAT AS

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THE MARKET GROWS, OUR OPPORTUNITIES TO SELL IMPROVE
AND THAT IF THE MARKET STABILIZES THAT OUR SHARE WILL
NOT BE REDUCED. DE MOREL IMMEDIATELY DID NOT SEE A
WAY TO BE RESPONSIVE TO THIS NEED. AMBASSADOR WOLFF
POINTED OUT THAT THERE IS NO INTERNATIONAL COOPERATION
ON AGRICULTURE, WHICH WOULD CAUSE US GREAT PROBLEMS
IN THE FUTURE.

18. DE MOREL SAID HE WAS HOPING FOR SOME "POSITIVE
WORDS" FROM GENEVA. AMBASSADOR WOLFF SAID THE US IS
WILLING TO HAVE A RANGE OF PRICES AS CONTAINED IN
OUR WHEAT PROPOSAL. BUT WE HAVE NO ABILITY TO MAINTAIN
A FIXED MAXIMUM OR MINIMUM. DE MOREL SAID THE FRENCH
WERE NOT DOGMATIC. THE FIRST MEANS TOWARD AN AGREEMENT
IS TO ARRANGE FOR STOCKS. AMBASSADOR WOLFF SAID WE
HAD DIFFICULTY SEEING THE BALANCE OF OBLIGATIONS AND
BENEFITS. WHEN PRICES DROP, THE EC MAY PURCHASE FIVE
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MILLION TONS (OR SOME OTHER NUMBER) BUT THE PRICE
KEEPERS DROPPING. THE US BUILDS UNLIMITED STOCKS AND
TAKES LAND OUT OF PRODUCTION WHICH IS VERY COSTLY.
IF THE EC INTERNAL PRICE IS HIGHER THAN THE UPPER END
OF THE BRACKET THERE WOULD HAVE TO BE EC EXPORT SUB-
SIDIES, OR ELSE EVERYONE ELSE WOULD GIVE UP STOCKS
WITHOUT ANY BURDEN SHARING BY THE EC. DE MOREL CON-
CLUDED THAT THERE MUST BE A LINK WITH THE MTN.
AMB. WOLFF AGREED AND SAID WE COULD NOT CONCLUDE THE
MTN WITHOUT SUBSTANTIAL RESULTS IN AGRICULTURE.

19. AFTER REVIEWING THE HISTORY OF 1976-77, AMB. WOLFF
SAID WE WERE CONVINCED THAT THE LONGER TERM PROBLEMS

OF THE STEEL INDUSTRY MUST BE ADDRESSED. WE FEEL CONFIDENT THAT THE REFERENCE PRICE SYSTEMS WILL WORK, BUT THERE ARE IMPORTANT CYCLICAL AND STRUCTURAL PROBLEMS THAT MUST BE DEALT WITH IN THE LONGER TERM(E.G. NEW CAPACITY IN THE LDCS). WE NEED A MECHANISM TO DISCUSS THESE PROBLEMS--EXPORT CREDITS FOR NEW STEEL MILLS IN DEVELOPING COUNTRIES, SAFEGUARD ACTIONS, ETC. AND WE NEED RULES. THIS IS LINKED WITH THE MTN ALSO, AS WAS POINTED OUT EARLIER. IF STEEL IS OUT OF THE MTN, CHEMICALS WILL BE OUT, MAN MADE FIBERS WILL GO, AND THE RESULT WILL BE ZERO--NO NEGOTIATIONS-- FOLLOWED BY NATIONAL LEGISLATION. HE WILL SEE DAVIGNON TO DISCUSS THE POSSIBILITY OF FORMING A STANDING COMMITTEE TO EXAMINE A CODE OF CONDUCT OR AT A MINIMUM TO EXCHANGE INFORMATION. IT WOULD BE DANGEROUS TO TRY TO GO TOO FAR AND HE RECOGNIZED THE POLITICAL PROBLEMS REGARDING LDCS.

20. DE MOREL SAID THE FRENCH POSITION IS THAT CONTROL BASED ONLY ON PRICE IS INAPPROPRIATE. THE FIRST EX-LIMITED OFFICIAL USE

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PERIENCE WITH THE US SYSTEM IS NEGATIVE. HE THOUGHT THE REASONS UNCLEAR AND AGREED IT WOULD TAKE MORE TIME TO EVALUATE THE SYSTEM. HOWEVER, HE SAID THE FRENCH ARE CONVINCED OF THE NEED FOR A QUANTITATIVE ELEMENT.

21. AMBASSADOR WOLFF RECOGNIZED THE DANGERS INHERENT IN THE SYSTEM OF REFERENCE PRICES, BUT THERE WOULD BE EVEN GREATER DANGERS INVOLVED IN QUANTITATIVE RESTRICTIONS, ESPECIALLY FOR THE US ECONOMY WHICH DEPENDS FOR A SUBSTANTIAL PART OF ITS REQUIREMENTS ON IMPORTED STEEL. QUANTITATIVE LIMITS WOULD GIVE US AN ADMINISTRATIVE HEADACHE AND DISTORT OUR ECONOMY, AND MIGHT EASILY FAVOR JAPAN OVER EUROPE. DE MOREL REPEATED THAT HE WAS NOT TALKING ABOUT QRS BUT ABOUT A QUANTITATIVE ELEMENT. BOTH AGREED ON THE NEED FOR GREATER INTERNATIONAL COOPERATION TO DEAL WITH THE STEEL PROBLEM.

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Message Attributes

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